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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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U.S. Economic and Real Estate Outlook

Aggregate Economy

Real or inflation-adjusted Gross National Product (GNP) is likely to increase at an annualized rate of 4 percent during the second quarter of 1984. This reflects one-half of the unusual growth rate of the first quarter. The indexes of leading and coincident indicators rose just 0.5 percent in April, significantly lower than the increases of January and Febuary. At the same time, the index of lagging indicators, which acts as a precursor of slower economic growth, rose by 1.7 percent. Consequently, payroll employment in May rose more modestly and the average workweek declined.

One of the few industries as yet unaffected by this slowdown is the automobile industry. In May the seasonally-adjusted annual rate of new car sales reached 11 million with domestic sales at 8.6 million, the highest level since January 1980.

Growth of real GNP should continue to decline through the remainder of 1984, falling to 3 percent during the third quarter and about 2-1/2 percent during the fourth quarter. For 1985 a growth recession is anticipated, meaning that overall economic growth, expected to be about 2 percent for the year, slows to the point that the unemployment rate rises. A mild recession is also likely during 1985, with the level of economic activity declining for at least two quarters. In 1986 there should be some improvement with real GNP increasing 2-1/2 to 3 percent.

The unemployment rate fell to 7.5 percent in May after holding at 7.8 percent for the previous three months. Further large declines in the unemployment rate are not anticipated due to the slowing of employment growth as the recovery slows.

Inflation continues to accelerate as the manufacturing capacity utilization approaches 83 percent and less efficient capacity is used. The Consumer Price Index (CPI) rose at an annualized rate of 6.2 percent in April compared to 2.4 percent in the previous month. The average increase in the CPI over the April through June period should be about 6 percent, up from 5 percent from January through March. Further acceleration in price increases is expected during the remainder of this year. By the fourth quarter the CPI could be rising at an annualized rate of more than 6-1/2 percent. Inflation is expected to average about six percent during the slow growth period of 1985 and then begin accelerating again in 1986.

Interest rates continue to rise as growing private credit demands clash with federal government demands for credit. The deficit should total about $180 billion for 1984, absorbing nearly 60 percent of net domestic savings. Even with the "deficit downpayment" now being negotiated, the deficit should rise to $220 billion for 1985 and 1986. In May the average rate on 30 year Treasury bonds averaged about 13.25 percent, up 50 to 60 basis points over April. In late March the FED voted to tighten the growth of money and credit, pushing the federal funds rate from 9.9 percent to 10.3 percent for April and May. The federal funds rate continues to rise, fueling speculation that the FED further tightened in late May despite uncertainty in the commercial banking system. Interest rates are likely to continue on their upward trend, with the federal funds rate at about 11-1/2 percent and 30 year Treasury bonds approaching 14 percent by the end of 1984.

Real Estate Markets

Resales rose slightly to a seasonally-adjusted annual rate of 3.07 million units in April. However, with commitment rates for fixed-rate mortgages over the 14 percent threshold, resale activity should start trending down. Resales should decline to the 2.7 million unit level by the end of 1984 and average 2.5 million units for all of 1985. Similarly, housing starts should trend down over the remainder of the year, averaging 1.8 million units for 1984 and then decline to the 1.5 million unit level for 1985.

After a shallow downturn in 1983, the value of new commercial buildings put in place is expected to rise about 25 percent in 1984. However, the anticipated slowdown in commercial construction to correct for an oversupply of commercial space in some markets should begin during the second half of 1984 and last at least through 1986. Construction of new industrial buildings is enjoying a moderate recovery after a steep slump in 1983, but expected levels of construction do not meet the current need to replace obsolete manufacturing capacity.

Table 1

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,542	3,622	3,702	3,781	3,854	3,920	3,987	4,068	3,073	3,310	3,662	3,957	4,310
Percent Change	12.8	9.4	9.1	8.8	8.0	7.1	7.0	8.4	4.0	7.7	10.6	8.1	8.9
Percent Change (without inflation)	8.8	4.0	3.2	2.5	1.9	1.5	1.3	2.1	-1.9	3.4	6.0	2.2	2.6
Consumption	6.9	2.8	2.4	1.8	1.7	2.2	2.2	2.3	1.4	4.2	4.7	2.1	2.3
Durables	22.7	5.2	-0.5	-0.6	0.0	2.0	2.0	2.8	-0.9	11.8	12.2	0.9	2.8
Nondurables	5.3	2.1	2.0	1.5	1.6	1.9	2.0	1.9	0.5	3.3	3.8	1.8	1.9
Services	3.2	2.5	3.8	2.9	2.3	2.5	2.4	2.4	2.9	2.7	3.1	2.7	2.4
Residential Investment	25.8	14.0	-3.6	-6.0	-12.5	-12.0	-7.8	-0.5	-15.3	39.4	14.0	-7.3	4.4
Nonresidential Investment	14.7	11.4	7.4	4.6	3.8	3.1	4.3	5.1	-4.7	1.4	14.7	4.9	5.1
Structures	21.6	12.0	6.1	2.6	1.7	0.9	2.6	3.4	1.8	-6.9	9.9	3.1	3.6
Equipment	12.0	11.3	7.9	5.5	4.7	3.9	5.0	5.7	-7.5	5.3	16.6	5.6	5.7
Exports	7.3	8.3	5.4	5.5	5.1	5.6	5.5	5.2	-7.8	-5.8	5.8	5.6	5.0
Imports	54.0	10.1	8.6	7.1	4.8	5.1	5.1	4.9	1.4	7.2	25.0	6.1	4.7
Government Purchases	-2.2	18.9	3.6	3.1	-1.3	3.1	3.1	2.2	1.8	0.5	3.1	2.9	2.6
Consumption (% of GNP)	65.4	65.2	65.0	64.9	64.9	65.0	65.2	65.2	65.3	65.9	65.1	65.1	64.9
Residential Investment (% of GNP)	3.7	3.8	3.7	3.6	3.5	3.4	3.3	3.3	2.5	3.4	3.7	3.4	3.4
Nonresidential Investment (% of GNP)	11.6	11.8	12.0	12.0	12.1	12.1	12.2	12.3	11.2	11.0	11.9	12.2	12.5
Inventory Change ($ billions)	69.3	46.2	52.7	59.4	70.9	67.6	58.7	55.9	-24.6	-6.5	56.9	63.3	62.5
Mfg. Capacity Utilization Rate (%)	81	83	83	83	83	82	82	82	71	75	82	82	82
Auto Sales (millions of units)	10.6	10.6	10.4	10.3	10.2	10.1	10.2	10.2	8.0	9.2	10.5	10.2	10.2
Domestic (% of total)	78.0	78.6	75.1	74.8	76.5	76.4	74.6	73.7	72.3	73.8	76.6	75.3	73.6
Imported (% of total)	22.0	21.4	24.9	25.2	23.5	23.6	25.4	26.3	27.9	26.1	23.4	24.7	26.4
Manufacturing Industrial Production (% change)	12.6	11.4	7.1	0.6	0.4	0.3	0.9	2.1	-8.5	7.8	12.0	2.0	2.9
Common Market	4.7	2.8	3.0	3.7	1.5	1.5	1.0	1.8	-1.4	0.7	3.8	2.1	2.0
Japan	14.0	4.3	2.0	2.2	5.7	2.7	2.3	0.9	0.4	3.5	8.5	3.2	2.9
Employment(millions)(civilian:household basis)	103.7	104.8	105.5	106.2	106.7	107.1	107.4	107.7	99.5	100.8	105.1	107.2	108.8
Unemployment Rate (%) (civilian)	7.9	7.6	7.5	7.5	7.6	7.7	7.8	7.9	9.7	9.6	7.6	7.7	8.0
Personal Income per Household (average)<1>	37,599	38,361	39,096	39,847	40,520	41,221	41,869	42,635	33,633	35,433	38,726	41,561	44,858
Percent Change -- Year Ago (w/o inflation)	5.1	5.0	5.0	3.5	1.6	1.4	1.2	1.2	-0.8	1.3	4.7	1.3	1.8
Personal Taxes per Household (average)	6,772	6,926	7,068	7,213	7,334	7,484	7,619	7,788	6,426	6,513	6,995	7,556	8,476
Percent Change -- Year Ago (w/o inflation)	1.5	1.0	4.9	4.1	2.4	2.1	1.9	2.0	-2.3	-2.7	2.9	2.1	5.7
Percent of Personal Income	18.8	18.8	18.9	18.9	18.9	19.0	19.0	19.1	19.9	19.2	18.9	19.0	19.7
Disposable Income per Household (average)	30,824	31,435	32,029	32,634	33,186	33,737	34,251	34,848	27,206	28,920	31,730	34,005	36,381
Percent Change--Year Ago (w/o inflation)	6.0	6.0	5.0	3.5	1.6	1.3	1.1	1.1	-0.4	2.3	5.1	1.3	0.9
Household Interest Payments (% of total)	10.3	10.7	10.3	10.2	10.2	10.3	10.6	10.6	9.6	9.8	10.4	10.4	10.2
Net Worth per Household (average)	75,533	76,802	78,221	79,540	80,681	81,880	83,405	85,143	66,453	74,134	77,524	82,777	90,081
Percent Change -- Year Ago (w/o inflation)	1.3	-0.8	-0.4	0.6	1.0	0.7	0.8	1.2	-1.8	7.1	0.2	0.9	2.5
Consumer Price Inflation (CPI)	5.0	5.9	6.5	6.6	5.8	5.6	5.8	6.1	6.2	3.2	5.2	6.0	6.2
Gross National Product Inflation (GNP Deflator)	3.7	5.2	5.7	6.2	6.0	5.5	5.6	6.2	6.0	4.2	4.4	5.8	6.1
Personal Consumption Inflation	3.6	5.5	6.0	6.5	5.7	5.5	5.6	5.9	5.8	3.9	4.4	5.8	6.0
Residential Construction Inflation	0.7	4.2	6.2	7.7	7.1	7.0	6.9	7.4	2.8	2.3	3.0	6.9	8.0
Nonresidential Construction Inflation	-1.5	4.5	6.9	8.6	7.5	7.3	7.4	7.8	4.7	-0.7	2.0	7.4	8.3
Producers Price Inflation (WPI)	3.0	3.9	6.2	6.2	4.9	5.6	5.9	6.3	2.0	1.3	3.9	5.6	6.5
Compensation per Manhour (% change)	5.9	6.8	6.9	7.3	7.4	6.4	6.5	7.2	7.9	5.5	5.7	6.9	7.5
Productivity (% change)	2.3	1.0	1.7	1.2	1.0	1.1	1.5	1.5	0.0	3.1	2.3	1.2	1.7
Unit Labor Cost (% change)	3.6	5.8	5.0	6.0	6.3	5.2	4.9	5.5	7.9	2.3	3.3	5.6	5.7
Unit Capital Cost (% change)	5.1	4.8	4.6	4.5	4.5	4.5	4.6	4.7	9.5	6.9	4.7	4.6	4.8
Before Tax Corporate Profits ($ billions)<2>	248	255	261	262	263	260	255	257	190	217	257	259	279
Corporate Tax Liability	92	95	97	98	98	96	93	97	59	77	96	96	106
'Windfall Profits' Tax Receipts	8	8	8	8	8	8	8	8	16	10	8	8	8
After Tax Profits	149	153	156	157	157	156	154	152	115	131	153	155	165
Inventory Valuation Adjustment	-13	-19	-27	-31	-29	-30	-33	-35	-8	-9	-22	-32	-41
Capital Consumption Adjustment	50	55	59	63	70	72	75	78	-1	31	57	74	78
Profits from Current Production (with IVA, CCA)	185	188	187	189	198	198	196	195	106	152	188	197	202
Adjusted for Inflation (84:1 base)	185	186	183	181	187	184	181	177	113	155	184	182	176
Percent Change - Year Ago	48.6	27.2	9.6	-1.7	0.9	-0.8	-0.9	-2.3	-8.9	38.0	18.2	-0.8	-3.2
Per Unit of Output (% of GNP)	5.2	5.2	5.1	5.0	5.1	5.0	4.9	4.8	3.4	4.6	5.1	5.0	4.7
Effective Corporate Tax Rate (%)<2>	34	34	35	34	33	33	33	33	37	34	34	33	35
Federal Tax Receipts (Unified basis)	620	779	683	640	645	833	745	694	609	613	680	729	818
Percent of GNP	17.5	21.5	18.5	16.9	16.7	21.3	18.7	17.0	19.8	18.5	18.6	18.4	19.0
Federal Expenditures (Unified basis)	837	873	831	908	929	947	941	983	740	803	862	950	1,039
Percent of GNP	23.6	24.1	22.5	24.0	24.1	24.1	23.6	24.2	24.1	24.3	23.5	24.0	24.1
Surplus or Deficit (Unified basis)	-218	-94	-148	-267	-284	-114	-196	-289	-131	-190	-182	-221	-221
% of GNP	6.1	2.6	4.0	7.1	7.4	2.9	4.9	7.1	4.2	5.8	5.0	5.6	5.1
% of Personal Savings	148.9	61.4	93.9	162.9	166.0	64.8	112.1	161.7	106.1	164.3	116.8	126.2	121.5
% of Net Domestic Savings	69.3	29.1	45.7	81.5	83.5	33.2	58.2	85.6	68.0	78.5	56.4	65.1	63.8

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 2

JUNE 1984

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,943	3,030	2,897	2,700	2,625	2,500	2,450	2,350	1,948	2,719	2,893	2,481	2,713
Percent Change - Year Ago	14.5	9.0	4.6	-2.1	-10.8	-17.5	-15.4	-13.0	-17.2	39.6	6.4	-14.2	9.3
Dollar Volume (billions)	250.2	256.2	249.8	226.4	225.0	219.6	217.2	205.0	156.5	224.5	245.7	216.7	248.1
Existing Home Prices - Median ($1000's)	71.8	73.6	75.2	74.0	75.8	77.8	79.5	78.0	67.7	69.8	73.7	77.8	82.4
Percent Change - Year Ago	5.0	5.5	5.8	5.6	5.5	5.7	5.7	5.5	2.3	3.2	5.5	5.6	6.0
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	642	693	717	712	734	759	789	769	754	633	691	763	772
Percent of Household Income	21	23	23	22	23	23	24	23	28	22	22	23	22
NAR Affordability Index	86.8	85.0	79.8	81.8	80.0	78.5	77.2	80.5	68.3	82.3	83.3	79.0	82.4
New Single-Family Home Sales (thousands)	681	650	630	600	570	550	530	510	417	626	640	540	589
Percent Change - Year Ago	13.8	0.3	7.3	-10.7	-16.4	-15.3	-15.8	-15.0	-4.3	50.1	2.2	-15.6	9.1
New Home Prices - Median ($1000's)	78.0	79.0	80.4	82.1	83.7	85.3	86.9	88.7	69.3	75.5	79.8	86.1	93.9
Percent Change - Year Ago	6.4	5.3	3.5	8.1	7.3	8.0	8.2	8.1	0.7	8.9	5.8	7.9	9.0
New Home Prices--Mean ($1000's, Quality Adjusted)	90.7	91.5	93.1	94.4	96.4	97.9	99.8	101.1	87.8	89.7	92.4	98.8	106.7
Percent Change - Year Ago	1.9	3.2	2.6	4.7	6.3	7.0	7.2	7.1	2.8	2.1	3.1	6.9	7.9
New Mortgage Commitments ($ billions)	184.6	170.5	160.4	154.8	151.6	149.1	152.1	159.6	64.8	163.4	167.6	153.1	174.7
Percent Change - Year Ago	28.6	10.7	-16.4	-5.7	-17.8	-12.6	-5.2	3.1	8.1	152.1	2.6	-8.6	14.1
Mortgage Debt Outstanding ($ billions)	1,871	1,925	1,980	2,034	2,089	2,145	2,206	2,270	1,629	1,752	1,952	2,178	2,106
Homeowners' Equity ($ billions)	2,712	2,757	2,783	2,850	2,912	2,980	3,052	3,125	2,396	2,580	2,776	3,018	3,336
Housing Inventory (millions)	92.8	93.2	93.6	94.0	94.4	94.7	95.1	95.4	90.6	91.8	93.4	94.9	96.3
Private Housing Starts (thousands)	1,962	1,837	1,745	1,505	1,524	1,481	1,481	1,500	1,056	1,704	1,762	1,496	1,657
Single-Family	1,277	1,127	1,092	953	960	937	934	939	663	1,066	1,112	942	1,052
Percent of Total	65.1	61.4	62.6	63.3	63.0	63.2	63.0	62.6	62.8	62.6	63.1	63.0	63.5
Multi-Family	685	710	653	552	563	545	548	560	394	637	550	554	606
Percent of Total	34.9	38.6	37.4	36.7	37.0	36.8	37.0	37.4	37.2	37.4	36.9	37.0	36.5
Mobile Home Shipments (thousands)	298	290	280	275	269	267	265	268	240	296	286	267	286
Rental Vacancy Rate (%)	5.6	5.5	5.5	5.5	5.5	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	44.3	43.4	44.0	45.2	46.6	48.0	49.2	49.6	65.2	43.0	44.2	48.4	50.1
Office Vacancy Rate (%)<1>	13.1	12.0	11.5	11.1	10.7	10.4	10.1	9.9	8.0	11.7	11.9	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.8	4.6	4.4	4.2	4.0	3.9	3.8	3.8	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	60.9	41.8	3.1	4.2	-0.8	-0.2	2.6	5.7	9.0	-2.8	26.0	3.8	9.0
New Industrial Building Construction (% Ch Value)	68.7	38.3	28.0	36.9	28.1	18.5	7.2	11.5	2.5	-24.0	15.2	24.2	14.9
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	7.4	5.7	6.1	4.7	6.7	5.1	5.9	7.3	6.6	11.0	6.8	5.8	6.4
M1 Velocity (% change)	5.1	3.5	2.8	3.9	1.2	1.9	1.0	1.0	-2.4	-3.0	3.5	2.1	2.3
M2 (% change)(FED Target 6-9%)	7.0	8.5	8.1	6.8	6.2	5.8	8.8	9.7	9.5	12.6	8.0	7.2	8.0
M2 Velocity (% change)	5.4	0.9	0.9	1.9	1.6	1.2	-1.7	-1.1	-5.0	-4.4	2.4	0.9	0.8
Monetary Base (% change)	8.7	6.4	6.5	6.3	5.7	6.8	6.9	7.2	6.9	9.5	7.7	6.4	7.1
Flow of Funds													
Supply (total)	399	412	419	429	441	445	442	447	209	285	415	444	464
Personal Savings	146	153	158	164	171	175	175	179	125	114	155	175	182
Savings Rate	5.8	6.0	6.0	6.1	6.3	6.3	6.2	6.2	5.8	4.9	6.0	6.3	6.0
Net Business Savings	107	107	104	104	110	108	105	102	37	79	105	106	104
State + Local Govt. Savings	61	62	62	60	59	59	57	57	31	51	61	58	60
Foreign Funds(current account deficit)	85	90	95	101	101	103	105	109	15	41	93	104	117
Demand (total)	406	237	302	411	448	292	351	416	168	315	339	377	352
Consumer Installment Debt(net change)	68	48	38	34	32	32	33	34	19	40	47	33	39
Commercial+Industrial Loans(net change)	34	17	43	50	72	91	56	18	23	-2	36	59	11
Home Mortgage Debt(net change)	86	78	73	60	59	54	66	75	-4	86	74	64	81
Federal Deficit	218	94	148	267	284	114	196	289	131	190	182	221	221
Selected Interest Rates (Percent)													
Mortgage Commitment Rate (weighted average)	13.1	13.9	14.1	14.2	14.3	14.4	14.7	14.6	16.6	13.3	13.8	14.5	13.8
30 Year,Fixed-Rate	13.7	14.5	14.7	14.8	14.9	15.0	15.3	15.2	17.2	13.9	14.4	15.1	14.4
Real Mortgage Rate	10.0	9.3	9.0	8.7	8.9	9.5	9.7	9.0	12.8	9.9	9.2	9.3	8.1
1 Year ARM (without buy-down)	11.9	13.1	13.5	13.8	14.0	14.2	13.9	13.5	14.0	11.3	13.1	13.9	13.0
Corporate Bond Rate (AAA)	12.3	13.5	13.7	13.8	13.9	14.0	14.0	13.9	13.8	12.0	13.3	13.9	13.4
Government Bond Rate	12.1	13.4	13.6	13.7	13.7	13.8	13.5	13.0	12.9	11.3	13.2	13.5	12.3
Real Government Bond Rate	8.4	8.2	7.9	7.5	7.7	8.3	7.9	6.9	8.6	7.3	8.0	7.7	6.0
Federal Funds Rate	9.7	10.7	11.1	11.3	11.5	11.6	11.5	10.9	12.3	9.1	10.7	11.4	10.2
3 Month Treasury Bill Rate	9.2	10.1	10.5	10.8	11.0	11.2	10.9	10.5	10.6	8.6	10.1	10.9	10.1
Real 3 Month T-Bill Rate	5.5	4.9	4.8	4.6	5.0	5.7	5.3	4.3	6.2	4.5	4.9	5.1	3.8
1 Year Treasury Bill Rate	10.2	11.4	11.8	12.1	12.3	12.5	12.2	11.8	12.3	9.6	11.4	12.2	11.3
Commercial Paper Rate	9.4	10.5	10.9	11.2	11.3	11.5	11.6	11.1	11.9	8.9	10.5	11.4	10.3
Rate on Money Market Fund Shares	9.6	10.7	11.2	11.4	11.6	11.7	11.8	11.2	12.1	9.0	10.7	11.6	10.4
Prime Rate	11.1	12.5	12.9	13.2	13.3	13.4	13.4	13.2	14.9	10.8	12.4	13.3	12.2

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.